

**STANDARD  
& POOR'S****RATINGS DIRECT****RESEARCH****Somerville, Massachusetts; General Obligation; Note**

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**Credit Profile**

US\$11.12 mil GO bnds dtd 08/15/2006 due 08/15/2007-2026 A+  
 Sale date: 09-AUG-2006  
 US\$5.3 mil BANs dtd 08/18/2006 due 12/18/2006 SP-1+  
 Sale date: 09-AUG-2006

**AFFIRMED**

\$10.355 mil. Somerville GO AAA/A+(SPUR)

**OUTLOOK:**

POSITIVE

**Rationale**

Standard & Poor's Ratings Services revised its outlook on Somerville, Mass.' outstanding GO bonds to positive from stable based on continued strong management practices, a manageable debt position with sufficient reserves, and a significant amount of ongoing economic development activity.

In addition, Standard & Poor's assigned its 'A+' rating to the City of Somerville, Mass.' GO bonds and its 'SP-1+' short-term rating to the city's BANs, reflecting the city's:

- Close proximity to and participation in the greater Boston MSA economy;
- Large, predominantly residential tax base;
- Improving, already-solid financial position; and
- Very low debt burden.

Slightly offsetting these strengths is a pension fund with a funded ratio of 55% and a \$109 million unfunded pension liability.

The notes and bonds are secured by the city's full faith and credit pledge. Proceeds from the bonds will fund various capital projects, including the construction of Lincoln Park School and sewer construction.

Mayor Joseph Curtatone has lead the city to adopt revised zoning policies to aid in furthering some major commercial redevelopment sites that, on completion, will add considerably to the tax base. The 145-acre Assembly Square project is in the second phase, with enough new retail business to now rank in the city's list of top employers. Subsequent phases will include an IKEA furniture store, waterfront housing, and possibly a light rail station. The federal transportation bill earmarked \$25 million for the station. Also under construction is the North Point mixed-use project on the Cambridge line, with nine of the 40 acres in the project area in Somerville. Both the Assembly Square project and the North Point project are underway, with a 15-year projected build-out. A number of other commercial, cultural and housing development projects are underway in the city as well.

Somerville's financial position is solid. Unaudited fiscal 2006 results indicate that revenues exceeded expenditures by \$2 million. Fiscal 2005 closed with a \$7.99 million surplus leading to a \$23.1 million fund balance, or 15.6% of expenditures. The \$15 million fiscal 2005 unreserved fund balance equated to an adequate 10.1% of expenditures. The fiscal 2007 budget was mainly driven by fixed costs. At 8.5% greater than the adopted fiscal 2005 budget, increases were mainly due to healthcare and energy costs, while increased revenues are expected from property tax and state aid revenues. In addition to the general fund, the city has various other funds to draw from, including free cash, stabilization funds, a debt service

reserve fund, and a health plan trust fund.

The city of Somerville's management practices are considered good under Standard & Poor's Financial Management Assessment (FMA). An FMA score of good indicates that practices are deemed currently good, but not comprehensive. Among the highlights of the city's management techniques are a budget accountability system, biweekly meetings to monitor the budget, and formal investment, fund balance, and debt management policies. The city also does multiyear planning, including a capital improvement plan.

The city receives 90% school building construction cost reimbursement from the state. Overall net debt, factoring in the state school reimbursement, is a low \$384, or just 0.3% of market value. Debt service remains manageable at 5% of expenditures. The city's pension fund was just 55% funded as of the last actuarial valuation on Jan. 1, 2004, with an unfunded liability of \$109.3 million. Including the city's unfunded pension liability as debt, overall net debt is a moderate \$1,794 per capita, or 1.6% of market value.

## Outlook

The positive outlook recognizes recent and ongoing significant tax base growth occurring from strong redevelopment activities and the city's successful management of that growth to date. Strong tax base growth has provided the city with additional revenue and has aided in managing within Proposition 2 1/2 constraints. In addition, the mix of commercial and residential development has not pressured the budget, as school enrollment has been declining, given the shift to condominium development and demographic changes in recent years. If the city continues to be successful in absorbing tax base activity without materially affecting its debt levels or financial position, a higher rating will be considered within the two year outlook horizon. If economic activity proves to be burdensome or the city's current strong financial and debt position soften, an outlook change back to stable could be considered.

## Economy

Somerville is a fully developed, 3.93-square-mile city of 77,500, adjacent to Boston, Mass ('AA' GO rating) and Cambridge, Mass. ('AAA' GO rating). The fiscal 2006 assessed value is \$7.9 billion, which factors into a high market value per capita of \$112,530, with the fiscal 2007 assessed value projected to be \$8.4 billion. Nearly 89% of the fiscal 2006 tax base is residential. Unemployment in the city has been historically below the state and national averages, demonstrating the important residential role in the regional economy. The long-standing largest employer is Tufts University (50% of the campus is in adjacent Medford) with 2,000 employees, but Lesley University is also expanding its presence within the city. The wealth indicators for the city are average, slightly ahead of national income levels and slightly below the state income average.

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